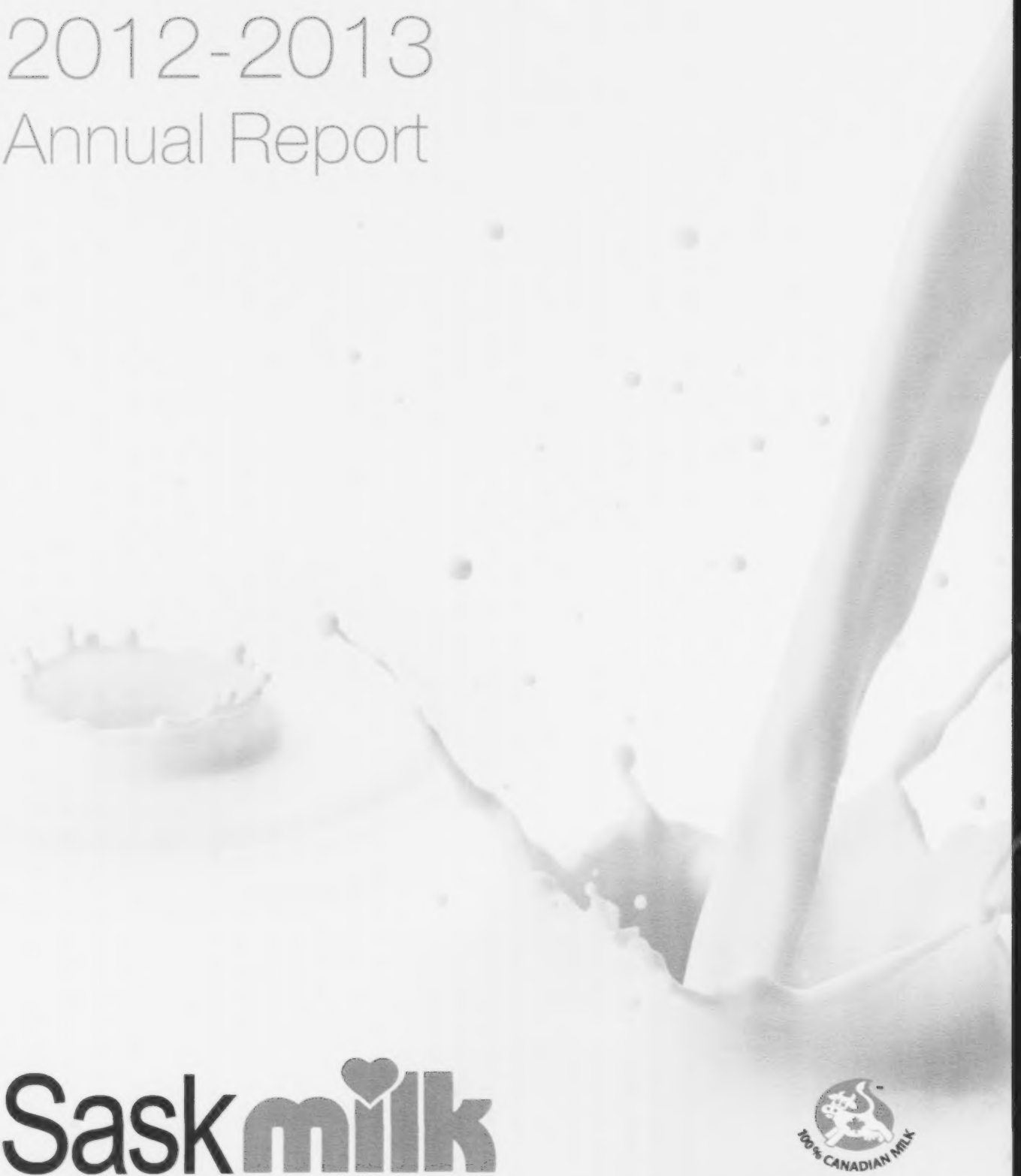
2012-2013
Annual Report



Saskmilk

100% CANADIAN MILK

Misson Statement

SaskMilk, dairy farmers growing the dairy industry

Vision Statement

Providing Leadership, Innovation & Excellence

(Standing – left to right) Isaac Klassen, Jim Ross, Blaine McLeod, Brad Kornelius, Jack Ford, Mel Foth
(Seated – left to right) David Entz, Juliann Lindenbach, Sheldon Peifer

Board of Directors 2012-2013

Blaine McLeod, Chair
Box 466
Caronport, SK S0H 0S0

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Sheldon Peifer
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Jim Ross
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Staff

Ryan Boughen
CEO

Jenn Buehler
Executive Assistant

Dianne Cardinal
HR Coordinator/Producer
Payment Officer

Bev Eckert
Promotions Assistant

Deb Haupstein
Dairy Specialist

Anita Medl
Marketing Manager

Doug Miller
Manager Finance & IT Services

Joy Smith
Manager Policy &
Communications

Bev Solie
Quota Management Officer

Darlene Weighill
Financial Officer

Chairman's Report

As I look back on the year's activities with a view to writing a report, it is amazing to me to see the breadth and scope of activities that your board has been involved with. It is impossible to capture all the detail in one report but I would like to highlight some of the major activities and accomplishments of the past year.

I spoke last year regarding the successful implementation of the $1.92 add-on to fluid milk which brought our province in line with the rest of our WMP partners. That was accomplished in February of 2013 but we remained at a disadvantage because of the smaller percentage of fluid milk that is processed in our province. The position that we have consistently brought to the table is that all revenue from fluid milk should be shared across the WMP as per the original agreement. I am pleased to report that at our June WMP meeting there was a motion passed that would move to accomplish the sharing of fluid milk add-on dollars based on quota shares in the WMP. The sharing of dollars is to begin in February 2014 and that will allow SaskMilk to move forward on many of the strategic initiatives that have been identified. My thanks go out to our WMP partners for correcting this long-standing issue and moving forward in a cooperative manner.

Marketing and promotion continues to be a major focus of our organization and this year there were some significant changes. We began the year with the move to developing a fluid milk campaign with all of our WMP partners under the banner of MilkWest. Talks developed with the rest of our English speaking provinces and the framework was developed for a Canada wide campaign known as the Strategic Milk Alliance (SMA). In today's fast-paced environment we need to maximize every dollar we spend to make sure that we create the exposure that will place our great product in the minds of as many potential consumers as possible. I believe we have built the framework that should allow great things to be achieved and I trust we will see good success in this joint campaign. It is only the beginning of what can be accomplished when we work together. I would acknowledge the dedication and perseverance of Anita Medl and Juliann Lindenbach as they worked hard to bring a successful outcome to the SMA.

SaskMilk continues to place emphasis on the strategic planning process and has entered into a contract with Rhiness Group Inc. to develop and help implement a successful plan. Brian Rhiness was chosen because of his focus on implementation and not allowing the agreed-to plan to collect dust on a shelf. We have had several sessions with the board and management team and at our June meeting the proposed plan and the agreed-to strategies and actions were put in place. There is much more that needs to be worked on and finished in the process but the blueprint for the way forward is there. The move to policy governance is critical to the ongoing viability of our organization and both the board and staff have important roles that they play in managing and directing our industry.

On a more recent note, we have been focused on a government mandated review of the Fluid Milk Compositional Standards Regulations. The process was started in October 2012, when the government asked for our comments regarding the existing regulations. That was provided and no additional correspondence was received until July 2013. The proposed changes are very troubling and have the potential to erode consumer confidence in the quality and purity of milk that they rely on. We have actively engaged in the consultation process and have recently enlisted the help of all of our producers in making sure that our MLA's are informed of the damage these changes could cause. DFC has supported and assisted our efforts, and all provinces have registered their opposition by sending letters of support to our Agriculture minister and the ministry officials tasked with the review. We will continue to be vigilant to protect and promote the purity of fluid milk.

Our recently approved Mission Statement states that we will 'Provide Leadership, Innovation and Excellence'. These are qualities that I trust we can all aspire to and will provide the focal point for SaskMilk for many years.

Blaine McLeod

CEO's Report

2012-2013 was another busy year for SaskMilk. Our staff was engaged in a number of projects initiated by the Board.

SaskMilk's successful fluid milk marketing partnership with Alberta Milk and Dairy Farmers of Manitoba was expanded to include B.C. Dairy Association and Dairy Farmers of Canada. Under the newly-formed Strategic Milk Alliance, the new partnership launched an exciting new fluid milk marketing campaign across English-speaking Canada. This new partnership has allowed SaskMilk's marketing resources to be further leveraged and realize a greater return on investment for Saskatchewan's hard-working dairy farmers.

Information management is a vital to the success of the ongoing operations at SaskMilk. From milk payment services to document and process management, a robust information technology (IT) system is necessary for SaskMilk to provide comprehensive services to producers and other stakeholders. Two years ago, Dairy Farmers of Ontario experienced a catastrophic flood which caused them to re-examine their entire IT system. As a result, SaskMilk and 6 other provinces have partnered with DFO to create a national IT infrastructure that will not only be more robust than SaskMilk's Milk Payment System, but will also enable SaskMilk to expand information sharing capabilities with producers and other stakeholders. It will also increase our capacity to analyze and manage information so that better-informed decisions can be made. It is estimated that this project will be complete in 2015.

This past year also saw the development and mandatory implementation of on-farm record keeping and standard operating procedures for all dairy farms in Saskatchewan. While SaskMilk has always offered Canadian Quality Milk (CQM) Program registration to producers on a voluntary basis, the Board of Directors took steps towards implementing many of the components of the CQM program on each dairy farm. Through training sessions and on-farm visits by SaskMilk staff, the mandatory implementation of record keeping and composition of standard operating procedures on each dairy farm was substantially completed by July 31st.

SaskMilk also engaged in a comprehensive strategic plan review this past fiscal year. SaskMilk appreciated the engagement of multiple stakeholders that were surveyed during this process. Staff are well into the implementation of year one of the strategic plan and I would like to thank them for their hard work and dedication to this task.

Lastly, SaskMilk welcomed two new faces to the organization in 2013. Jennifer Buehler was hired as our Administrative Assistant and Joy Smith as our Manager of Policy & Communications. These two new faces have served to further enhance a very capable staff that is dedicated to serving the dairy industry in Saskatchewan.

Ryan Boughen

Dairy Farmers of Canada Director Report

The Board of Directors of Dairy Farmers of Canada continues to advance the national policy, lobbying and marketing priorities that are identified by DFC members. We continue to work proactively with our industry partners to manage the sector to improve our system, promote milk and dairy products and maintain an effective and efficient system.

Consumers are becoming increasingly interested in food production sustainability, and to better address this demand, DFC started consulting dairy farmers in fall 2012 about the proAction Initiative. This initiative will be designed by farmers, for farmers, with the objective to implement a unique, national, credible and practical on-farm program. It will further strengthen the 100% Canadian Milk branding on the market and will demonstrate farmers' commitment to providing milk of high quality that is produced responsibly.

Over two-thirds of Canadian dairy farms are now on the Canadian Quality Milk program, and the Advisory Committee is ensuring that the program remains up to date and relevant for farmers. DFC continues to co-operate with the Canadian Cattlemen's Association and its other partners in the cattle industry to implement traceability from farm to fork.

In 2012, at the request of the National Farm Animal Care Council (NFACC), DFC began developing an on-farm animal care assessment program, based on the new model, which involves stakeholders. NFACC's objective is to demonstrate that the codes are being implemented on farms. The first draft of this program was taken to a modest number of farms for a test and to gather input from farmers and validators. That input is of crucial importance to DFC because it will enable us to rectify the gaps and simplify the program before bringing it on farms for another test pilot. The DFC Board of Directors are recommending this be integrated with CQM, under proAction.

DFC continued to closely monitor discussions related to the various trade negotiations. In 2013, trade talks for the Canada-Europe Comprehensive Economic Trade Agreement (CETA) intensified as an imminent conclusion drew near. DFC continued to monitor to issues of concern: Europe's demand for greater access to the Canadian dairy market, and geographical indicators.

Most experts agree that the trade talks for the Trans-Pacific Partnership (TPP) will not finish in 2013 as planned; especially as Japan is the 12th participant to join the negotiating table this week. New Zealand, Australia and the United States have indicated they want to obtain greater access to Canada's dairy market. Since December 2012, when Canada officially joined the TPP, DFC and the SM-5 have had a presence in all negotiation rounds.

Throughout 2013, the provincial Chairs and DFC Board met several times to discuss national pooling and governance. The Board is pleased to see these discussions progress, in keeping with the vision according to which all should be treated equitably.

DFC continues to promote the Canadian dairy industry and emphasize the benefits of supply management for Canadians. Updated web pages on dairyfarmers.ca share how supply management is working for Canadians. Clear and simple facts surrounding supply management and dairy can be found there and you are encouraged to use this resource in your communications. The DFC Board regularly reviews the communications strategy and media analysis with a strong commitment to ensure the resources are provided to continue public relations activities to share the Canadian dairy farmer story with the general public.

Research continues to be a strategic investment priority for dairy farmers. DFC was informed that the federal government has accepted to fund the next cluster research to the tune of $12 million over the next five years. The Canadian Dairy Commission has also offered to finance a priority research in the nutrition field over the next five years with a contribution of $750,000.

DFC continues to position the 100% Canadian Milk symbol as a confirmation of the Canadian origin of the milk in dairy products. The ***100 Good Reasons*** campaign was launched in spring 2012; the last reason, "Good things come from 100% Canadian Milk", with four videos featuring a dairy producer, a cheese maker, an ice cream maker and a creamery.

The national ***Get Enough*** nutrition campaign continues to encourage consumers to get the recommended servings of Milk and Alternatives, as per ***Canada's Food Guide,*** and highlight the benefits of milk products. A national in-store promotion was tested during the summer in Ontario supermarkets and was expanded nationally in November. Major partnerships with Osteoporosis Canada, the Heart & Stroke Foundation of Canada and Colorectal Cancer Association of Canada will continue to be pursued to further communicate the health benefits of milk products into 2014.

For a broad list of DFC's activities related to lobby, marketing and nutrition, please refer to the semi-annual activity report ***Action+*** (available online) or visit **www.dairyfarmers.ca**. And stay tuned for increased communications from DFC in the coming year in response to the increasing complexity of the food business and the need for you, as dairy farmers, to have a clear understanding of the value of your investments in defending and growing the market for Canadian milk.

Isaac Klassen

Research Report

After 10 years in the making, we now have a unique, state of the art dairy research facility located at the University of Saskatchewan. The opening of this dairy research unit is the result of a partnership between the SaskMilk membership, the University of Saskatchewan, both the federal and provincial governments, many other commodity group partners, such as SaskCanola and SaskFlax just to name a couple, and many private partners such as the financial sector.

There are several areas within the facility which are unique to North America and perhaps the world. As an example, to the best of our knowledge, this is the only barn anywhere where there are three different milking systems all feeding into a central collection site. The Public Viewing Gallery was incorporated into the facility to educate the general public as to where their food actually comes from and the care and safety that goes into producing the food we eat, not just dairy but all food.

The Dairy Advisory Board is the result of an agreement between the SaskMilk members and the University of Saskatchewan that ensures that industry will have a say in future research initiatives. The Advisory Board is comprised of several academia from the university along with representation from different commodity groups and service sectors. One of the responsibilities of the Advisory Board is to hold a "Dairy Info Day" annually; this event allows the researchers to demonstrate their work to our membership, and at the same time get feedback from our members as to what projects would interest the membership in the future.

The primary goal of our membership is to be more efficient and therefore more profitable while helping our fellow commodity partners also achieve these same goals by dedicated research in the field of "Dairy Science". Lactating dairy animals are an excellent research tool because the results of any research project, be it good results or bad results, are known very quickly as opposed to other livestock sectors. The research in this unit will have a positive impact on the grains and oilseeds sectors as well; if we work closely with the grain sectors, we can either help promote their by-products such as canola meal or dried distiller's grains, or we can quickly identify areas of concern to the export market such as ergot or micotoxins and help find a solution to the concern.

Now that the new Dairy Unit is up and running, and the cows and people have adapted to their new surroundings, we at SaskMilk look forward to growing our industry through research and development in many different areas such as better animal nutrition and health, being more environmentally sustainable, and better human health via the milk and milk products that our industry produces. The future is ours and we will only be limited by our own curiosity and I hope our level of curiosity is unlimited!

Jack Ford

Production Report

As of July 2013 Saskatchewan had 167 dairy operations in the province.

The total milk shipped for the year was 229,360,313 litres. This was an annual decrease of 4,477,962 litres or 1.91%. Butterfat production for the dairy year was 8,953,040 kilograms, down from the previous year by 104,853 kilograms of butterfat or 1.16%.

In the Western Milk Pool Class 1 fluid sales were 7.05%. Total Class 1 fluid sales in the WMP were 903,207,090 litres: this is down from the previous year by 17,641,812 litres or 1.92%.

The average milk composition was:

Butterfat	3.9035%
Protein	3.3881%
Other Solids	5.7033%

Average blend price:

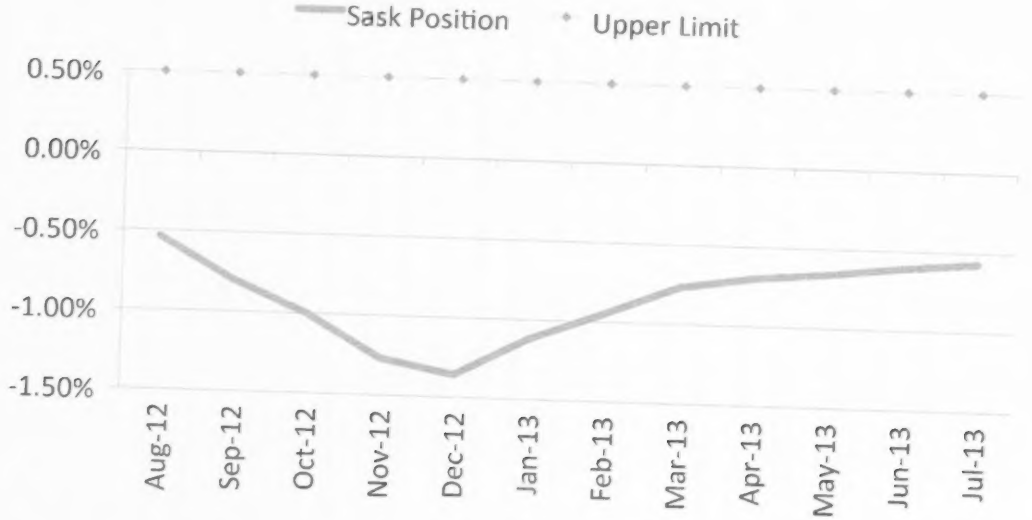
All Milk	$80.96/hl
Butterfat	$20.75/kg

Average component prices:

Butterfat	$11.563171/kg
Protein	$ 8.563161/kg
Other Solids	$ 1.256773/kg

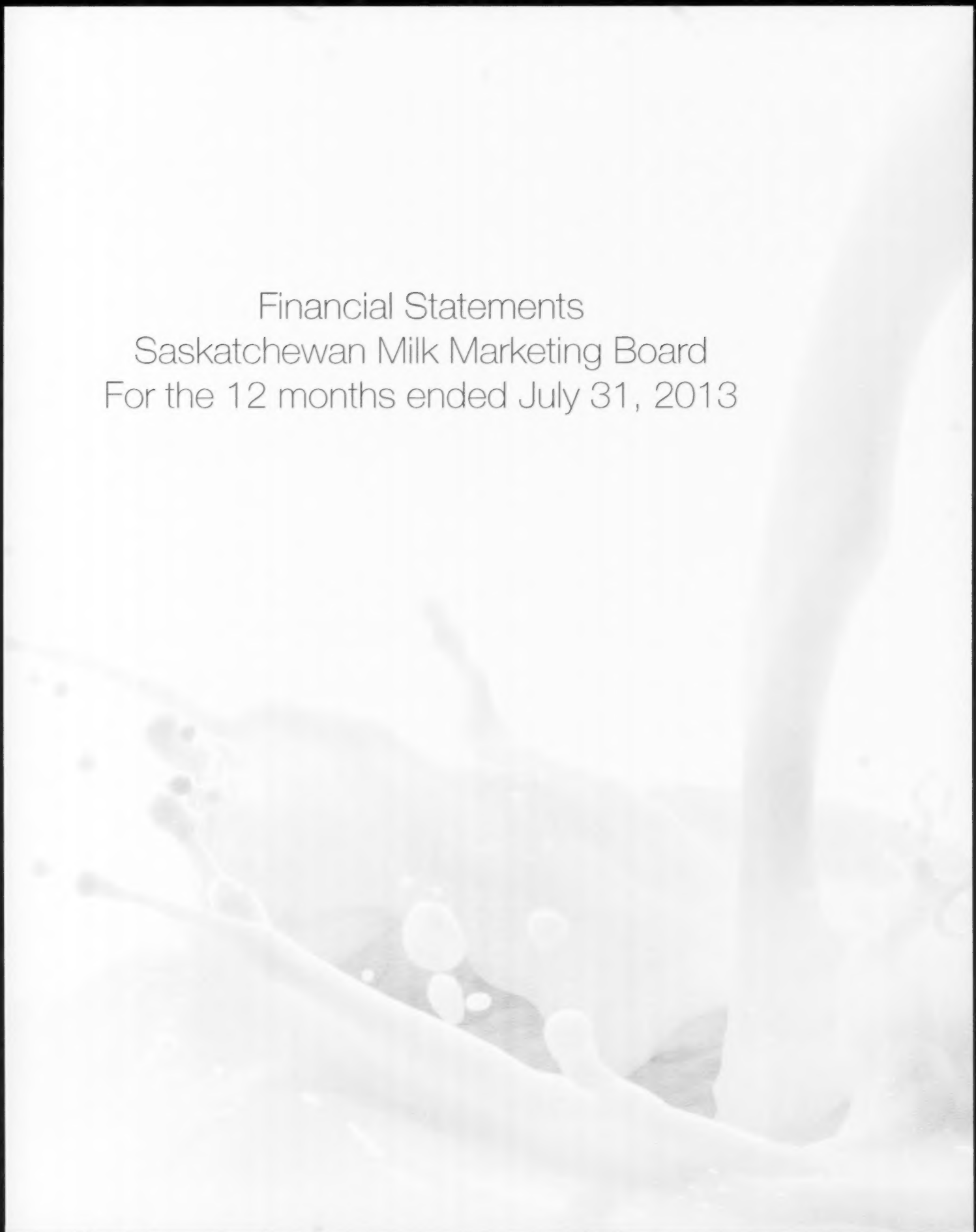
	Monthly Total Production	Monthly CDC Allocation	Monthly Over/Under Production	Cumulative Quota Filled	Daily Avg Shipment Kgs of Bfat
Aug-12	721,786	735,560	-13,774	98.13%	23,283
Sep-12	710,635	733,846	-23,211	96.84%	23,688
Oct-12	758,280	776,429	-18,149	97.66%	24,461
Nov-12	739,624	763,515	-23,891	96.87%	24,654
Dec-12	775,041	782,831	-7,790	99.00%	25,001
Jan-13	788,550	767,437	21,113	102.75%	25,437
Feb-13	712,149	695,911	16,238	102.33%	25,434
Mar-13	782,850	767,403	15,447	102.01%	25,253
Apr-13	746,838	739,911	6,927	100.94%	24,895
May-13	756,748	753,699	3,049	100.40%	24,411
Jun-13	725,874	721,056	4,818	100.67%	24,196
Jul-13	734,665	730,970	3,695	100.51%	23,699
Totals	8,953,040	8,968,567	(15,527)	99.83%	24,529

SaskMilk Production



Saskmilk

Financial Statements
Saskatchewan Milk Marketing Board
For the 12 months ended July 31, 2013



Independent Auditors' Report

To the Directors of Saskatchewan Milk Marketing Board:

We have audited the accompanying financial statements of Saskatchewan Milk Marketing Board ("SaskMilk"), which comprise the statement of financial position as at July 31, 2013, and the statements of operations and changes in net assets, and cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SaskMilk as at July 31, 2013 and the results of its operations, changes in net assets and cash flows for the year ended in accordance with Canadian accounting standards for not-for-profit organizations.

MNP LLP

Regina, Saskatchewan
October 22, 2013

Chartered Accountants

Saskatchewan Milk Marketing Board

Statement of Financial Position

As of July 31, 2013

	2013	2012
Assets		
Current		
Cash	$2,873,113	$3,449,423
Accounts receivable	9,860,481	8,797,449
GST receivable	20,198	60,762
Prepaid expenses	87,097	69,380
	12,840,889	**12,377,014**
Capital Assets (*Note 3*)	347,985	381,413
	$13,188,874	**$12,758,427**
Liabilities		
Current		
Accounts payable and accrued liabilities	$10,122,872	$10,111,661
PST Payable	-	254
	10,122,872	**10,111,915**
Internally Restricted Fund - Industry Development *(Note 8)*	303,617	101,637
General Fund	2,762,385	2,544,875
Net Assets	**3,066,002**	**2,646,512**
	$13,188,874	**$12,758,427**

Commitments (*Note 5*)

Approved by the Board of Directors

Director

Director

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Operations

For the year ended July 31, 2013

	BUDGET *(Note 9)*	2013	2012
	(unaudited)		
Revenue			
Milk sold to processors	$177,600,000	$175,737,087	$172,926,494
Milk pools (*Note 4*)	7,200,000	10,859,631	14,983,948
Milk pool administration and assessment fees *(Note 10)*	1,607,117	1,767,189	1,892,704
Interest	72,000	79,669	76,016
Milk quality penalties	240,000	285,232	360,065
Licence fees and miscellaneous	63,470	375,369	73,298
Promotion Levy	3,283,000	3,211,864	3,241,110
Grant revenue	-	143,897	-
	190,065,587	192,459,938	193,553,634
Expenses			
Milk purchased from producers	185,365,000	186,755,800	188,536,075
DFC Industrial Levy and Membership	1,546,590	1,501,637	1,192,197
Administrative expense	460,622	1,186,203	725,502
PMMP (Prairie Milk Marketing Partnership)/Milk West	1,287,500	781,064	1,034,246
Salaries	742,341	726,265	775,579
Marketing, Nutrition and Education Activities	335,531	247,435	184,083
Travel, sustenance and vehicle expense	212,353	226,450	222,524
Employee benefits	178,085	156,844	118,012
Rent	126,022	127,806	138,059
Honoraria	88,675	103,190	109,168
School Milk Program	103,500	99,345	101,606
Legal	40,000	35,458	43,997
Amortization	70,000	63,708	64,814
Cost of production study	20,000	29,245	11,833
	190,576,219	192,040,448	193,257,694
Excess of revenues (expenses)	**$(510,632)**	**$419,490**	**$295,940**

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Changes in Net Assets

For the year ended July 31, 2013

	General Fund	Internally Restricted for Industry Development	2013	2012
Net assets, beginning of year	$2,544,875	$101,637	$2,646,512	$2,350,572
Excess of revenue (expenses)	419,490	-	419,490	295,940
Interfund transfers *(Note 8)*	(201,980)	201,980	-	-
Net assets, end of year	**$2,762,385**	**$303,617**	**$3,066,002**	**$2,646,512**

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Cash Flows

For the year ended July 31, 2013

	2013	2012
Cash Flows from Operating Activities:		
Cash receipts from processors and fees	191,357,800	194,695,844
Interest received	79,669	76,016
Cash paid to producers	(191,100,391)	(192,365,154)
Cash paid to employees and board members	(883,109)	(893,591)
Cash flows from operating activities	(546,031)	1,513,116
Cash Flow used for Investing Activities:		
Purchase of tangible capital assets	(30,279)	(90,351)
Net (decrease) increase in cash during the year	**(576,310)**	**1,422,764**
Cash position, beginning of year	3,449,423	2,026,659
Cash position, end of year	**2,873,113**	**3,449,423**

See accompanying notes to the financial statements.

1. Incorporation

The Saskatchewan Milk Marketing Board (SASKMILK) is a producer marketing board established under the Agri Food Act effective October 1, 2010. The Board's general role and responsibility is to design and implement dairy policies and programs for the benefit of producers and other industry stakeholders.

In particular, the Board is responsible for:

- collection and purchase of producer milk;

- transport and sale of milk to distributors and processors;

- compensate producers through a multiple component pricing system and manage production levels in conjunction with the National and Regional Marketing Agreements; and

- collect and administer fees or levies required to operate the provincial milk pool, and to fund Board program activities (promotion and nutrition) of benefit to the industry.

The Board provides leadership to the Saskatchewan dairy industry in addressing provincial, regional, national and international issues. It also promotes the interests of Saskatchewan producers at Western Milk Pool and Canadian Milk Supply Management Committee meetings.

Industry stakeholders' participation in policy and program consultations is facilitated primarily through semi-annual and annual producer meetings.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO).

a) Revenue Recognition

Revenue from the milk sold to the processors is recognized when the milk is delivered to the processor.

b) Cash

Cash is comprised of monies on deposit with the bank.

2. Significant accounting policies

c) Capital Assets

Capital assets are recorded at cost and are amortized over their estimated useful lives. Amortization expense is calculated using the straight line amortization at the following annual rates:

Leasehold Improvements	10 years
Milk Payment System	10 years
Office furniture and equipment	3-10 years
Storage container	20 years

d) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in excess of revenues and expenses in the periods in which they become known.

e) Income taxes

SASKMILK is incorporated as a not-for-profit organization and is exempt from income taxes.

f) Financial Instruments

SASKMILK recognizes its financial instruments when they become party to contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value. SASKMILK financial instruments consist of cash, accounts receivable, and accounts payable. SASKMILK subsequently measure all other financial instruments at cost or amortized cost.

2. **Significant accounting policies (continued)**

g) **Financial Asset Impairment**

SASKMILK assesses impairment of all of its financial assets measured at cost or amortized cost. SASKMILK groups assets for impairment testing when available information is not sufficient to permit identification of each individually impaired financial asset in the group. Management considers whether the issuer is having significant financial difficulty and/or whether there has been a breach in contract in determining whether objective evidence of impairment exists. When there is an indication of impairment, SASKMILK determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year. If so, SASKMILK reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets and the amount that could be realized by selling the assets. Any impairment, which is not considered temporary, is included in current year excess of revenues over expenses.

SASKMILK reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in the excess of revenue (expenses) in the year the reversal occurs.

3. **Capital Assets**

	Cost	Accumulated Amortization	2013 Net Book Value	2012 Net Book Value
Milk Payment System	$348,396	$99,687	$248,709	$274,300
Leasehold Improvements	60,928	16,319	44,609	46,255
Office furniture and equipment	107,824	53,157	54,667	60,868
	$517,148	**$169,163**	**$347,985**	**$381,413**

4. **Milk Pools**

Effective August 1, 1991 (and continued August 1, 2003), the previous Saskatchewan Milk Control Board entered into an arrangement with its counterparts in Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba, Alberta, British Columbia and the Canadian Dairy Commission (CDC). As of September 2006, Newfoundland and Labrador have signed on. This arrangement provides for pooling of revenues from sales of milk components in industrial and special classes of milk sold in domestic and external markets. CDC administers the Industrial and Special Class Pool.

4. Milk Pools (continued)

Effective March 1, 1997, the previous Saskatchewan Milk Control Board entered into an arrangement with its counterparts in British Columbia, Alberta and Manitoba and the CDC. This arrangement provides for pooling of all revenues from sales of Fluid Milk and Industrial Milk, including special classes, by producers to processors in the four western provinces. The purpose of the arrangement is to pool producer returns as if the western provinces constituted a single market. CDC administers the Western Milk Pool.

The Saskatchewan Milk Marketing Board has replaced the former Saskatchewan Milk Control Board in all previous agreements.

Based on each province's monthly utilization, CDC will either distribute a portion of, or require a contribution to the Industrial and Special Class Pool and Western Milk Pool. Saskatchewan received contributions of $10,859,631 (2012 - $14,983,948) from the milk pools.

5. Commitments

SASKMILK has entered into a lease for office space. The future minimum lease payments are as follows:

2014	$89,659
2015	$92,296
2016	$95,088
2017	$98,889
2018	$102,845

SASKMILK has a commitment to Milk West. In accordance with the related agreement, if the Board were to withdraw from the partnership it would still be responsible for its full contribution to the Milk West program for the 12 months following the notice of withdrawal. The contribution is reviewed and updated annually.

6. Pension plan

SASKMILK participates in the Public Employees Pension Plan, a defined contribution or benefit plan. SASKMILK's obligations to the Plan are limited to 7.25% (2012 – 7.25%) of earnings for all employees for current services. During the year, SASKMILK contributed $50,010 (2012 - $52,091) to the plan, which is recorded as an expense.

7. Financial instruments

a) Fair value

SASKMILK financial instruments consist of cash, accounts receivable, and accounts payable. The carrying amount of the Organization's financial instruments approximates their fair value, due to their relatively short-term maturities.

b) Credit risk

SASKMILK is subject to credit risk as all of the Board's milk sales are to one processor.

SASKMILK is also exposed to credit risk in accounts receivable in the event that a customer fails to honour its obligations. Credit risk is managed with regular credit assessments and active collection activity. In the event that an account is deemed uncollectible, the account will be written off as a bad debt.

c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. SASKMILK has no significant exposure to interest rate risk.

8. Internally restricted Fund

Effective February 1, 2013 with *Board Order No. 22/13 - Milk Pricing*, $0.89 (2012 – Board Order No. 17/22 – Milk Pricing, $0.49) of the Add-Revenue on Class 1 milk is designated for Internally Restricted Operations – Industry Development.

9. Budgeted figures

The budgeted figures provided in the statement of operations and changes in net assets are presented for information purposes only and are unaudited. The 2012 – 2013 Budget was approved by the Board of Directors on June 19, 2012.

10. Milk pool administration and assessment fees

Included in the Milk pool administration and assessment fees is the following:

	2013	2012
Add-on revenue	$1,092,737	$488,653
SMMB assessment	494,856	756,682
Fluid shrink	159,082	80,321
Component testing	20,513	21,734
CDC surplus refund	-	557,544
Adjustments	-	(12,230)
	$1,767,188	**$1,892,704**

11. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.

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